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VILLAGE OF FAIRGROVE FAIRGROVE, MICHIGAN TUSCOLA COUNTY

**FINANCIAL REPORT
MARCH 31, 2008**

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VILLAGE OF FAIRGROVE, MICHIGAN

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VILLAGE OF FAIRGROVE, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

August 26, 2008

To the Honorable Village Council
Village of Fairgrove
Tuscola County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Fairgrove, Tuscola County, Michigan as of March 31, 2008, and for the year then ended, which collectively comprise the Village's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Village of Fairgrove's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Fairgrove as of March 31, 2008, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information, as noted in the table of contents, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Village of Fairgrove presents to readers of the Village's financial statements this narrative financial information. It contains an objective overview and analysis of the financial position of the Village as of and for the year ended March 31, 2008. As management of the Village, we encourage readers to consider information contained in this discussion and the Village's financial statements, which follow this section.

Financial Highlights

- The Village's assets exceeded its liabilities at the end of the fiscal year by \$2,604,382.
- Net assets decreased by a total of \$4,471, or by approximately .2% of last years total net assets of \$2,608,853.
- The fund balance of the Village's General Fund increased by \$18,534. The fund balance for the other Governmental Funds (Major Street, Local Street, and Local Street Improvement Funds) increased by \$37,495.
- A significant expenditure in the General Fund for the year ended March 31, 2008 was the removal of a condemned building totaling \$14,149. The Village will be reimbursed for this expenditure in 2008, it is being added to the property owners taxes.

Financial Statements Overview

This Management Discussion and Analysis serves to introduce to the reader of the Village of Fairgrove's essential financial statements. These financial statements consist of three components as follows:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

The above financial information will provide the reader with a general understanding of the Village's current financial condition. Also, this report contains supplementary information in addition to the basic financial statements which provides a more detailed understanding of the Village's finances.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, similar to private sector businesses.

The Statement of Net Assets presents information on all of the assets and liabilities of the Village, with the difference between the two identified as net assets. Over a given period of time increases or decreases in net assets can serve as a useful indicator of improving or declining financial position of the Village.

The Statement of Activities show changes in net assets that occurred during the most recent fiscal year. These changes were recorded on an accrual basis, which distinguishes between the time when a financial transaction occurs and when payment is actually made. An example of accrual accounting is when debt interest payments are scheduled between the fiscal year end. The Statement of Activities will show additional interest expense for the time period between the last interest payment and the end of the fiscal year as an accrual.

The Government-wide Financial Statement, in addition to the Statement of Activities, is broken down into two Activities: Governmental Activities and Business-Type Activities. Governmental activities are primarily supported through tax and intergovernmental revenue. Business-type activities are primarily supported through user fees and charges.

Governmental activities for the Village of Fairgrove include general governmental functions, such as Administration, Village Buildings and Grounds (General government); Police and Fire (Public safety); Major Street, Local Street, Local Street Improvement, Public Works and Park (Highways and public improvements). Business-type activities include the Sewer system.

Fund Financial Statements

A fund is a set of closely related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The Village of Fairgrove uses fund accounting to demonstrate compliance with legal financial requirements, like all state and local governments. All Village Funds can be categorized as either governmental or proprietary funds.

Governmental Funds account for essentially the same activities as the Governmental Activities in the Government-wide financial statements, but with a narrower focus. Governmental Funds concentrate on near-term inflows and outflows of financial resources and the balances of spendable resources available to the government at the end of the fiscal year. This information can be useful in evaluating the government's short-term financing requirements.

Comparing similar information presented in the Government-wide statements for the Governmental Activities with that presented in Governmental Funds statements can provide useful information because the different focus to the two approaches. With the long-term focus of the Government-wide statements, a reader may be able to better understand the long-term effects of the near term financing decisions. To aid in the comparison, both the Governmental Fund balance sheet and the Governmental Fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between the Governmental Funds statements and the Governmental Activities in the Government-wide statements.

The Village of Fairgrove uses four different individual Governmental Funds. The Village considers all the funds to be major funds of the Village of Fairgrove. The funds are presented separately in the Fund Financial Statements. The Village adopts an annual appropriated budget for all its Governmental Funds.

The basic governmental fund financial statements can be found as listed in the table of contents.

Proprietary Funds include an enterprise fund and an internal service fund. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. The Internal Service Fund is used to report activities that provide goods or services to other funds or departments of the Village.

The Enterprise Fund maintained by the Village of Fairgrove includes the sewer fund. The Village uses the Internal Service Fund to account for vehicles, and equipment activities. Because they charge fees and charges to outside users of their systems, the Enterprise Fund is included in the Business-type Activities column of the government-wide financial statements. The Internal Service Fund, which accounts for equipment and vehicle that support the Village functions, is included under the Governmental Activities column.

Proprietary Funds present the same information as in government-wide statements, except in more detail. The fund statements for proprietary funds provide separate information for the Sewer fund which is considered to be a major fund of the Village of Fairgrove.

The basic proprietary fund financial statements can be found as listed in the table of contents.

Notes to the Financial Statements contain additional financial information to give the reader a complete understanding of the information contained in the government-wide and fund financial statements. Although these Notes provide detailed explanation and information related to the financial statements, this information is typically easy for the reader to follow. Notes to the Financial Statements are located after the financial statements as listed in the table of contents.

Other Information

The combining and individual fund statements and schedules are presented as additional information as listed in the table of contents.

Government-wide Financial Analysis

The following table shows in a condensed format, the net assets as of March 31, 2007 and 2008:

	Governmental Activities		Business Type Activities		Totals	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 424,983	\$ 372,081	\$ 180,697	\$ 152,390	\$ 605,680	\$ 524,471
Capital assets	<u>820,682</u>	<u>873,313</u>	<u>1,201,916</u>	<u>1,251,883</u>	<u>2,022,598</u>	<u>2,125,196</u>
Total assets	<u>\$1,245,644</u>	<u>\$1,245,394</u>	<u>\$1,382,613</u>	<u>\$1,404,273</u>	<u>\$2,628,257</u>	<u>\$2,649,667</u>
Current liabilities	\$ 20,103	\$ 36,848	\$ 3,771	\$ 3,966	\$ 23,874	\$ 40,814
Total liabilities	<u>20,103</u>	<u>36,848</u>	<u>3,771</u>	<u>3,966</u>	<u>23,874</u>	<u>40,814</u>
Net assets:						
Invested in capital assets, net of related debt	815,111	862,170	1,201,916	1,251,883	2,017,027	2,114,053
Unrestricted	<u>410,430</u>	<u>345,376</u>	<u>176,926</u>	<u>148,424</u>	<u>587,355</u>	<u>494,800</u>
Total net assets	<u>\$1,225,540</u>	<u>\$1,208,546</u>	<u>\$1,378,842</u>	<u>\$1,400,307</u>	<u>\$2,604,382</u>	<u>\$2,608,853</u>

As shown in the Statement of Net Assets provided the largest portion, by far, of the Net Assets of the Village of Fairgrove is its investment in capital assets. The Village of Fairgrove uses these capital assets to provide essential services to citizens who live, work or visit the Village. These assets, by design, are not available for future spending. Additionally, even though these capital assets are reported net of any related debt, resources needed to repay this debt must come from other sources, as these assets cannot be used to satisfy their related obligations.

Activities, Governmental and Business-Type

Net assets of Governmental Activities increased by \$16,994 for the year ended March 31, 2008. This is approximately a 1.4% change from beginning net assets.

Net assets of Business-type Activities decreased by \$21,465 for the year ended March 31, 2008. The amount of change is not significant as it is approximately 1.5% of beginning net assets.

The following table shows the changes of the net assets, for the year ended March 31, 2007 and 2008:

	Governmental Activities		Business Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues						
Charges for service	\$ 50,261	\$ 42,155	\$ 56,673	\$ 59,587	\$ 106,934	\$ 101,722
Contributions		1,482				1,482
General revenues						
Property taxes	97,331	92,888			97,331	92,888
State shared revenue	125,569	123,657			125,569	123,657
Unrestricted investment earnings	6,134	5,774	4,268	4,044	10,402	9,818
Miscellaneous	4,171	11,519			4,171	11,519
Total revenue	<u>283,466</u>	<u>277,475</u>	<u>60,941</u>	<u>63,611</u>	<u>344,408</u>	<u>341,086</u>
Expenses:						
General government	108,178	108,473			108,178	108,473
Public safety	70,715	68,659			70,715	68,659
Highways and public improvements	89,579	107,243			89,579	107,243
Sewer			82,406	84,061	82,406	84,061
Transfers (Net)						
Total Expenses	<u>266,471</u>	<u>284,375</u>	<u>82,406</u>	<u>84,061</u>	<u>348,878</u>	<u>368,436</u>
Change in net assets	(16,994)	(6,900)	(21,465)	(20,450)	(4,471)	(27,350)
Net assets - Beginning	<u>1,208,548</u>	<u>1,215,446</u>	<u>1,400,307</u>	<u>1,420,757</u>	<u>2,608,853</u>	<u>2,636,203</u>
Net assets - Ending	<u>\$1,225,540</u>	<u>\$1,208,546</u>	<u>\$1,378,842</u>	<u>\$1,400,307</u>	<u>\$2,604,382</u>	<u>\$2,608,853</u>

Financial Analysis of Village of Fairgrove's Funds

The Village of Fairgrove's governmental funds provide information on the short-term resource inflows and outflows and account balances at the end of the fiscal year. The total fund balance is a measure of total available resources and the reserved and unreserved portion. Of this total the unreserved portion is a measure of the available spendable resources as of March 31, 2008.

For the year ended March 31, 2008, the Village's governmental funds reported a combined fund balance amount of \$403,878. The fund balance increase for the current fiscal year was \$56,028. The Village has reserved \$22,327 of the fund balance for future fire equipment purchases.

General Fund Budgetary Highlights

A major difference in the original budget expenditure versus the final budget expenditure was with fire, which was increased by \$17,260. The Village anticipated a deficit of \$5,750; however actual figures ended up with a surplus of \$18,534.

Capital Assets

The Village of Fairgrove's investment, net of related debt, in capital assets for its governmental and business-type activities combined totaled \$2,017,027. The types of assets in this category are land, buildings, machinery and equipment, park and recreation equipment, roads and sewer collection system. The Village's investment in capital assets equals over seventy-seven percent (77%) of total net assets.

(Continued)

VILLAGE OF FAIRGROVE'S CAPITAL ASSETS
March 31, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
Land	\$ 11,907	\$ 107,732	\$ 119,639
Buildings	1,302,629		1,302,629
Equipment	745,641		745,641
Roads	95,533		95,533
Sewer system		<u>2,406,453</u>	<u>2,406,453</u>
Total assets	<u>2,155,710</u>	<u>2,514,185</u>	<u>4,669,895</u>
Accumulated depreciation	<u>(1,335,028)</u>	<u>(1,312,269)</u>	<u>(2,647,297)</u>
Net book value	<u>\$ 820,682</u>	<u>\$1,201,916</u>	<u>\$2,022,598</u>

Long-term Debt

The Village of Fairgrove's debt consists of a capital lease obligation for a police car of \$5,571.

Economic Factors and Future Budget Issues

The Village continues to simply maintain what is currently owned without spending on major capital improvements. This has been the only way that a balanced budget has been able to be achieved. Expenditures are kept to a minimum now but buildings and equipment continue to age and will eventually have to be replaced or have major maintenance performed. Money will have to be expended to keep the village operating smoothly and to continue providing the current services to residents.

The Village is struggling with the same issues of stagnant property valuations, decreasing revenues and increasing expenses. Future budgets may have to use money from fund balances, attempt to obtain grant monies or possibly go the people again for added millage. The Village went to the residents for millage two years ago and was turned down.

The police department is working well with no major capital improvements needed for several years. The fire and public works departments will need updated equipment soon. Fuel prices are affecting all areas of the budget, which will add to the costs of operations.

The sanitary sewer fund keeps improving monetarily. This money will be needed in making major repairs to the system. It has now been thirty years since the sanitary sewer was installed, so with each passing year these repairs will be inevitable.

The storm sewer system continues to need maintenance that currently the Village has been able to keep repaired as needed. There would not be enough money if the repairs became extensive. A storm sewer utility may have to be something the Village investigates. Street paving costs have increased but the Village streets have been able to be maintained as needed. In the future, the length of time between when streets are re-paved may have to be increased.

Requests for Information

This financial report is designed to give the reader a basic understanding of the Village of Fairgrove's finances. Any questions or requests for financial information contained in this report may be obtained by contacting the Village Clerk, Village of Fairgrove, 5005 Center Street, Fairgrove, Michigan 48733.

BASIC FINANCIAL STATEMENTS

VILLAGE OF FAIRGROVE, MICHIGAN

**STATEMENT OF NET ASSETS
MARCH 31, 2008**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 399,252	\$ 157,893	\$ 557,145
Taxes receivable	4,277		4,277
Accounts receivable	23,241	23,102	46,343
Allowance for doubtful accounts	(2,104)		(2,104)
Internal balances	298	(298)	-
Nondepreciated capital assets	11,907		11,907
Capital assets	2,143,803	2,514,185	4,657,988
Less accumulated depreciation	(1,335,028)	(1,312,269)	(2,647,297)
TOTAL ASSETS	<u>\$ 1,245,644</u>	<u>\$ 1,382,613</u>	<u>\$ 2,628,257</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 12,194	\$ 3,771	\$ 15,966
Accrued payroll taxes	1,748		1,748
Compensated absences	588		588
Lease payable - Police car	5,571		5,571
Total liabilities	<u>20,103</u>	<u>3,771</u>	<u>23,874</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	815,111	1,201,916	2,017,027
Unrestricted	410,430	176,926	587,355
Total net assets	<u>\$ 1,225,540</u>	<u>\$ 1,378,842</u>	<u>\$ 2,604,382</u>

The accompanying notes are an integral
part of the financial statements.

VILLAGE OF FAIRGROVE, MICHIGAN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008

	PROGRAM REVENUE			NET (EXPENSE) REVENUES & CHANGES IN NET ASSETS		
	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTALS
<u>Governmental Activities</u>						
General government	\$ 106,176			\$ (106,178)		\$ (106,178)
Public safety	70,715	\$ -		(20,454)		(20,454)
Highways and public improvements	89,579	-		(89,579)		(89,579)
Total governmental activities	266,471	-	-	(216,211)		(216,211)
<u>Business Type Activities</u>						
Sewer	82,406				\$ (25,734)	(25,734)
Total business-type activities	82,406				(25,734)	(25,734)
Total Government	\$ 348,878	\$ -	\$ -	(216,211)	(25,734)	(241,944)
<u>General Revenue:</u>						
Property taxes				97,331		97,331
State shared revenues				125,569		125,569
Unrestricted investment earnings				6,134	4,268	10,402
Miscellaneous				4,171		4,171
Total general revenues				233,205	4,268	237,473
Change in net assets				16,994	(21,465)	(4,471)
Net assets - beginning				1,208,546	1,400,307	2,608,853
Net assets - ending				\$ 1,225,540	\$ 1,378,842	\$ 2,604,382

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FAIRGROVE, MICHIGAN
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2008

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>LOCAL STREET IMPROVEMENT</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
Cash	\$ 174,873	\$ 80,435	\$ 64,262	\$ 29,857	\$ 369,427
Cash - Restricted-Fire equipment	22,327				22,327
Taxes receivable	354			3,922	4,277
Accounts receivable-Other	7,662	5,434	10,145		23,241
Allowance for doubtful accounts	(2,104)				(2,104)
TOTAL ASSETS	<u>\$ 203,113</u>	<u>\$ 85,869</u>	<u>\$ 94,407</u>	<u>\$ 33,779</u>	<u>\$ 417,167</u>
<u>LIABILITIES & FUND EQUITY</u>					
Liabilities:					
Accounts payable	\$ 11,487	\$ 54			\$ 11,541
Accrued payroll withholdings	1,748				1,748
Total liabilities	<u>13,235</u>	<u>54</u>			<u>13,289</u>
Fund balance:					
Restricted - Fire equipment	22,327				22,327
Unrestricted	<u>167,551</u>	<u>85,815</u>	<u>\$ 94,407</u>	<u>\$ 33,779</u>	<u>381,551</u>
Total fund balance	<u>189,878</u>	<u>85,815</u>	<u>94,407</u>	<u>33,779</u>	<u>403,878</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 203,113</u>	<u>\$ 85,869</u>	<u>\$ 94,407</u>	<u>\$ 33,779</u>	<u>\$ 417,167</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF FAIRGROVE, MICHIGAN
RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO GOVERNMENTAL ACTIVITIES NET ASSETS
MARCH 31, 2008

Total governmental fund balances	\$ 403,878
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. The cost of the assets is \$2,155,710 less the accumulated depreciation of \$1,335,028	820,682
Portion of internal service fund is not included in the governmental funds.	7,142
Compensated absences are not due and payable in the current period and therefore, are not reported in the funds.	(588)
Long-term liabilities, including notes payable are not due and payable in the current period and, therefore, are not reported in the funds.	(5,571)
Net assets - governmental activities	<u>\$ 1,225,540</u>

VILLAGE OF FAIRGROVE, MICHIGAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008**

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>LOCAL STREET IMPROVEMENT</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:					
Taxes	\$ 93,409			\$ 3,921	\$ 97,331
Intergovernmental	64,073	\$ 40,795	\$ 20,701		125,569
Miscellaneous	57,431	1,320	1,167	589	60,506
TOTAL REVENUE	<u>214,913</u>	<u>42,115</u>	<u>21,868</u>	<u>4,511</u>	<u>283,408</u>
EXPENDITURES:					
Administration	39,813				39,813
Streets		18,225	12,774		30,999
Village buildings and grounds	21,687				21,687
Police	21,190				21,190
Public works	69,139				69,139
Fire	44,550				44,550
TOTAL EXPENDITURES	<u>196,379</u>	<u>18,225</u>	<u>12,774</u>		<u>227,378</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>18,534</u>	<u>23,889</u>	<u>9,095</u>	<u>4,511</u>	<u>56,028</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in			21,758		21,758
Operating transfers out		(15,397)		(6,361)	(21,758)
TOTAL OTHER FINANCING SOURCES (USES)		<u>(15,397)</u>	<u>21,758</u>	<u>(6,361)</u>	<u>-</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>18,534</u>	<u>8,492</u>	<u>30,853</u>	<u>(1,850)</u>	<u>56,028</u>
FUND BALANCE-APRIL 1	<u>171,344</u>	<u>77,322</u>	<u>63,564</u>	<u>35,629</u>	<u>347,859</u>
FUND BALANCE-MARCH 31	<u>\$ 189,878</u>	<u>\$ 85,815</u>	<u>\$ 94,407</u>	<u>\$ 33,779</u>	<u>\$ 403,878</u>

The accompanying notes are an integral
part of the financial statements.

VILLAGE OF FAIRGROVE, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008**

Net change in fund balance - governmental funds **\$ 56,028**

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, the cost is allocated over their estimated useful lives
and reported as depreciation expense. This is the amount by which
capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 23,231	
Depreciation expense	<u>(70,268)</u>	(47,037)

The net revenue of certain activities of equipment rental is reported with
business-type activities (21)

Accrued compensated absences are recorded in the statement of activities
when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued compensated absences, beginning of year	2,580	
Accrued compensated absences, end of year	<u>(588)</u>	1,992

Police car lease payments affect long-term liabilities
in the *Statement of Net Assets* and does not affect the
Statement of Activities. 5,571

The net revenue of certain activities of internal service fund is reported
with governmental activities. 462

Change in net assets of governmental activities **\$ 16,994**

VILLAGE OF FAIRGROVE, MICHIGAN
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
MARCH 31, 2008

	<u>BUSINESS - TYPE ACTIVITIES</u> <u>ENTERPRISE FUND</u>	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u> <u>INTERNAL</u> <u>SERVICE FUND</u>
	<u>SEWER</u>	
<u>ASSETS</u>		
Current assets:		
Cash	\$ 157,893	\$ 7,499
Accounts receivable	23,102	
Total current assets	<u>180,995</u>	<u>7,499</u>
Noncurrent:		
Capital assets	2,514,185	153,190
Less accumulated depreciation	<u>(1,312,269)</u>	<u>(136,632)</u>
Total noncurrent assets	<u>1,201,916</u>	<u>16,558</u>
TOTAL ASSETS	<u>\$ 1,382,911</u>	<u>\$ 24,057</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 3,771	\$ 653
Total current liabilities	<u>3,771</u>	<u>653</u>
Total liabilities	<u>3,771</u>	<u>653</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,201,916	16,558
Unrestricted	177,224	6,846
Total net assets	<u>\$ 1,379,140</u>	<u>\$ 23,404</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds	(298)	
Net assets of business-type activities	<u>\$ 1,378,842</u>	

The accompanying notes are an integral
part of the financial statements.

VILLAGE OF FAIRGROVE, MICHIGAN
STATEMENT OF REVENUE, EXPENSES
AND CHANGE IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

	<u>BUSINESS - TYPE ACTIVITIES</u> <u>ENTERPRISE FUND</u>	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u> <u>INTERNAL</u> <u>SERVICE FUND</u>
	<u>SEWER</u>	
OPERATING REVENUE:		
Charges for services	\$ 58,673	\$ 38,670
OPERATING EXPENSES:		
Salaries	4,718	11,971
Employee benefits	824	5,361
Administrative fees		1,221
Contracted services	2,400	
Office supplies	332	
Operating supplies		506
Gas & oil		2,890
Insurance	3,688	6,266
Professional fees	1,100	1,100
Utilities	2,922	
Repairs and maintenance	471	3,358
Equipment rental	2,006	
Operations board expense	14,000	
Depreciation	49,967	5,594
TOTAL OPERATING EXPENSES	<u>82,427</u>	<u>38,268</u>
OPERATING INCOME (LOSS)	<u>(25,755)</u>	<u>403</u>
NONOPERATING REVENUE :		
Penalties and interest	4,268	61
TOTAL NONOPERATING REVENUE	<u>4,268</u>	<u>61</u>
CHANGE IN NET ASSETS	<u>(21,486)</u>	<u>463</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds	21	
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES	<u>(21,465)</u>	<u>463</u>
TOTAL NET ASSETS - BEGINNING	1,400,307	22,941
TOTAL NET ASSETS - ENDING	<u>\$ 1,378,842</u>	<u>\$ 23,404</u>

The accompanying notes are an integral
part of the financial statements.

VILLAGE OF FAIRGROVE, MICHIGAN
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

	<u>BUSINESS - TYPE ACTIVITIES</u> <u>ENTERPRISE FUND</u>	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u> <u>INTERNAL</u> <u>SERVICE FUND</u>
	<u>SEWER</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 59,822	
Receipts from interfund services		\$ 38,869
Payments to suppliers of goods and services	(25,107)	(14,255)
Payments to interfund services	(2,008)	
Payments to employees	(4,717)	(13,192)
Payments for fringe benefits	(824)	(5,361)
NET CASH PROVIDED BY		
OPERATING ACTIVITIES	<u>27,168</u>	<u>5,861</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	4,268	81
NET INCREASE IN CASH	<u>31,436</u>	<u>5,922</u>
CASH - APRIL 1	126,457	1,577
CASH - MARCH 31	<u>\$ 157,893</u>	<u>\$ 7,499</u>
Reconciliation of operating income (loss) to net		
cash provided by operating activities:		
Operating income (loss)	\$ (25,754)	\$ 401
Adjustment to reconcile operating income (loss) to net cash		
provided by operating activities:		
Depreciation	49,967	5,594
(Increase) decrease in current assets:		
Accounts receivable	3,150	
Increase (decrease) in current liabilities:		
Accounts payable	(195)	(134)
NET CASH PROVIDED BY		
OPERATING ACTIVITIES	<u>\$ 27,168</u>	<u>\$ 5,861</u>

The accompanying notes are an integral
part of the financial statements.

VILLAGE OF FAIRGROVE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the Village conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the Village are discussed below.

Reporting Entity

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the Village's reporting entity.

Excluded from the reporting entity:

Akron-Fairgrove School District - This potential component unit has a separate elected board and provides services to local residents of the Akron and Fairgrove, Michigan area. The Village does not have the ability to exercise influence or control over its daily operations, approve budgets or provide funding.

Board of Operations Akron-Fairgrove Wastewater - The Village of Fairgrove and the Village of Akron jointly appoint the board members of the Board of Operations. The Board of Operations is a separate reporting entity. Although the Board of Operations is not considered a component unit it is considered a jointly governed organization by the Village of Fairgrove and the Village of Akron. The Board operates a raw sewage treatment facility (lagoon) for the Village of Fairgrove and the Village of Akron. The Board of Operations generates revenue by monthly user charges based on gallons pumped by the two Villages. The Village of Fairgrove user fees amounted to \$14,000 for fiscal year ended March 31, 2008. The Villages do not have the ability to exercise influence or control over its daily operations. The related party payable for the fiscal year ended March 31, 2008 is \$3,500 and is included in the Sewer Fund Accounts Payable.

VILLAGE OF FAIRGROVE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government Wide and Fund Financial Statements:

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Village's public safety and general administrative services are classified as governmental activities. The Village's sewer system is classified as a business-type activity.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the Village are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

VILLAGE OF FAIRGROVE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

State revenue sharing, charges for services, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the Village.

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

The Village reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Village accounts for the Major Street, Local Street and Local Street Improvement in special revenue funds.

The Village reports the following major proprietary funds:

Enterprise Fund - The Sewer Fund is used to account for the sewer operations in the Village.

Additionally, the Village reports the following nonmajor fund types:

Internal Service Fund (Equipment Rental Fund) - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, or to other governments, on a cost-reimbursement basis.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

VILLAGE OF FAIRGROVE, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the utility enterprise fund and the Village's internal service fund are charges to customers for use of the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting:

The Village Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the Village charter, prior to March 1, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. The Village Clerk presents a monthly report to the Village Council explaining any variance from the approved budget.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse at the end of each fiscal year.
8. The Village Council may authorize supplemental appropriations during the year. The budget was amended throughout the year at regular Village Council meetings.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Village council) for the major funds are presented as required supplementary information.

Cash and Cash Equivalents:

Cash and cash equivalents of the Village include cash on hand and all deposits with financial institutions.

Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds"

(CONTINUED)

VILLAGE OF FAIRGROVE, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Receivables and Payables: (Continued)

Other receivables at March 31, 2008 consist of property taxes, bridge taxes, and billings for user charged services, including fire protection and utility services. Taxes and utility charges are deemed collectible in full. An allowance for doubtful accounts has been setup for fire protection receivables.

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied on the following July 1 and are payable without penalty through August 31. Village property tax revenue is recognized as revenue in the fiscal year levied to the extent that it is measurable and available in accordance with NCGA Interpretation 3 (Revenue Recognition – Property Taxes). The delinquent taxes of the Village are purchased through a revolving fund by Tuscola County and are therefore included as revenue in the fiscal year levied.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10 to 50
Buildings	25 to 50
Office equipment	5 to 10
Machinery and equipment	5 to 10
Vehicles	5
Improvements other than buildings	15 to 20

Depreciation of capital assets used by governmental funds is charged as an expense against their operations on the Statement of Activities. Accumulated depreciation is reported on the governmental fund Statement of Net Assets. Depreciation expense for the year ended March 31, 2008, was \$75,862. Capital asset acquisitions in the governmental funds totaled \$23,231 for the year ended March 31, 2008. A summary of Governmental Fund Capital assets at March 31, 2008, follows:

(CONTINUED)

VILLAGE OF FAIRGROVE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets: (Continued)

	March 31,	
	<u>2008</u>	<u>2007</u>
Land	\$ 11,907	\$ 11,907
Buildings	1,302,629	1,302,629
Equipment	592,451	584,973
Internal Service Fund assets	153,190	153,190
Roads	95,533	79,780
Total capital assets	2,155,710	2,132,479
Less accumulated depreciation	(1,335,028)	(1,259,168)
Net Governmental Fund Capital Assets	<u>\$ 820,682</u>	<u>\$ 873,313</u>

Depreciation of capital assets used by business-type funds is charged as an expense against their operations. Accumulated depreciation is reported on business-type fund statement of net assets. Depreciation expense for the year ended March 31, 2008, was \$49,967. There were no capital asset acquisitions or disposals in the business-type funds for the year ended March 31, 2008. A summary of Business-Type Fund capital assets at March 31, 2008, follows:

	March 31,	
	<u>2008</u>	<u>2007</u>
Land	\$ 107,732	\$ 107,732
Lagoon system	391,647	391,647
Sewer system	2,014,806	2,014,806
Total capital assets	2,514,185	2,514,185
Less accumulated depreciation	(1,312,269)	(1,262,302)
Net Business Type Capital Assets	<u>\$1,201,916</u>	<u>\$1,251,883</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$48,943
Public safety	20,015
Highways and public improvement	1,310
Equipment rental service	5,594
Total depreciation expense - governmental activities	<u>\$75,862</u>
Business-type activities:	
Sewer	<u>\$49,967</u>

(CONTINUED)

VILLAGE OF FAIRGROVE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences:

Full-time village employees are allowed to accumulate a maximum of thirty days of sick leave and carryover five days of unused vacation pay. The Village accrues a liability for compensated absences and is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statement. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - BUDGET COMPLIANCE:

During the year ended March 31, 2008, the following expenditures were in excess of the amount appropriated for the year:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>UNFAVORABLE VARIANCE</u>
MAJOR STREET:			
Operating transfer out	\$15,000	\$15,397	\$ 397
LOCAL STREET:			
Traffic services		34	34
Winter maintenance	3,500	3,573	73
LOCAL STREET IMPROVEMENT:			
Operating transfer out		6,361	6,361

NOTE 3 - CASH AND DEPOSITS:

Michigan Compiled Laws Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of

(CONTINUED)

VILLAGE OF FAIRGROVE, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 3 - CASH AND DEPOSITS: (CONTINUED)

any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Village's deposits are in accordance with statutory authority. The Village has authorized management to deposit and invest in the accounts of federally insured banks and savings and loan associations within the State of Michigan and bonds, securities and other obligations of the United States, or any agency of the United States in which the principal and interest is fully guaranteed by the United States. The Village's deposits and investments are within the authorization as set forth by the Village of Fairgrove. The Village's investment policy does not identify interest rate risk, foreign currency risk or concentration credit risk.

The carrying amount of cash and deposits with financial institutions of the Village of Fairgrove amounted to \$557,145 at March 31, 2008. The total bank balance as of the same date was \$563,176. Deposits with financial institutions are categorized as follows:

Amount insured by the FDIC	\$100,000
Uncollateralized/Uninsured	<u>463,176</u>
Total deposits with financial institutions	<u>\$ 563,176</u>

All deposits categorized as uncollateralized are the property of the Village of Fairgrove.

The amount of uncollateralized deposits throughout the fiscal year did not significantly exceed the amount of uncollateralized deposits at March 31, 2008.

NOTE 4 - LONG-TERM DEBT:

Police Car:

The Village is obligated under a lease with an option to purchase agreement. The payments are \$5,571 per year. The lease is further explained in Note 8. The lease balance is \$5,571 as of March 31, 2008. The lease matures May 17, 2008.

NOTE 5 - CONTINGENT LIABILITY:

The Village has elected to be a reimbursing employer for purposes of unemployment insurance claims. The Village reimburses the State of Michigan for all benefits charged against it. Unemployment insurance claims are recognized as expense when incurred.

NOTE 6 - PENSION PLAN - DEFINED CONTRIBUTION:

The Village of Fairgrove contributes to the Manulife Plan for Governmental Employees, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

(CONTINUED)

VILLAGE OF FAIRGROVE, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 6 - PENSION PLAN - DEFINED CONTRIBUTION: (CONTINUED)

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants benefits that may be allocated to such participant's account. As established by local ordinance, all and only elected officials of the Village of Fairgrove can participate in the pension plan from the date they are officially elected to their respective position. Contributions made by the Village for an employee vest immediately. An employee who leaves the employment of the Village is entitled to his or her contributions and the Village's contributions if vesting requirements are satisfied. As determined by local ordinance, each employee must contribute 7.65% of his or her gross earnings to the pension plan. The Village is required to contribute an amount equal to 7.65% of the employee's gross earnings.

The Village's total current year payroll was \$74,648 and the Village's total current year covered payroll was \$18,437, which is for elected officials only.

During the year, the Village's required and actual contributions amounted to \$1,932. Employees' actual contributions amounted to \$1,453.

No pension provision changes occurred during the year that affected the required contributions to be made by the Village or its employees.

The Manulife Plan held no securities of the Village or other related parties during the year or as of the close of the fiscal year ended March 31, 2008.

Employee Health Care:

Village of Fairgrove purchased commercial insurance coverage for its employees, including dependents.

NOTE 7 - RISK MANAGEMENT:

General Liability:

Village of Fairgrove participates in the Michigan Municipal Liability and Property Pool, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$1.86 million for real and personal property losses and \$5 million for liability losses. Village of Fairgrove is required to pay annual premiums to the Michigan Municipal Liability and Property Pool for the liability coverage. No supplemental premium assessment is required by the Michigan Municipal Liability and Property Pool. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

VILLAGE OF FAIRGROVE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 7 - RISK MANAGEMENT: (CONTINUED)

Worker's Compensation:

Village of Fairgrove participates in the Michigan Municipal Liability and Property Pool, which is a public entity risk pool, for the coverage of losses related to worker's compensation claims. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$500,000. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 8 - CAPITAL LEASE – POLICE CAR:

The Village of Fairgrove is obligated under a lease with an option to purchase agreement. Title to the police car shall vest in lessee when lessee acquires and accepts the equipment. The lease is renewable until all rental payments are paid.

The total amount to be paid for the police car is capitalized in the Village's Capital Assets schedule in the amount of \$22,287.

The following is a schedule, by years, of future minimum lease payments under the current capital lease:

<u>Year ending</u> <u>March 31,</u>	<u>Amounts</u>
2009	<u>\$5,571</u>
Total	<u>\$5,571</u>

NOTE 9 – INTERFUND TRANSFERS:

During the year ended March 31, 2008, the Major Street Fund transferred \$15,397 and the Local Street improvement transferred \$6,361 to the Local Street Fund to help support local street routine maintenance and other operating expenses.

REQUIRED SUPPLEMENTARY INFORMATION

**VILLAGE OF FAIRGROVE, MICHIGAN
GENERAL FUND
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND
BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2008**

	<u>BUDGET</u>			<u>VARIANCE -</u> <u>FAVORABLE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>(UNFAVORABLE)</u>
REVENUE				
Taxes	\$ 93,260	\$ 93,260	\$ 93,409	\$ 149
Intergovernmental	64,800	64,800	64,073	(727)
Miscellaneous	<u>71,000</u>	<u>71,000</u>	<u>57,431</u>	<u>(13,569)</u>
TOTAL REVENUE	<u>229,060</u>	<u>229,060</u>	<u>214,913</u>	<u>(14,147)</u>
EXPENDITURES				
Administration	44,350	44,350	39,813	4,537
Village buildings and grounds	22,400	24,400	21,687	2,713
Police	26,900	26,900	21,190	5,710
Public works	81,900	81,900	69,139	12,761
Fire	<u>40,000</u>	<u>57,260</u>	<u>44,550</u>	<u>12,710</u>
TOTAL EXPENDITURES	215,550	234,810	196,379	38,431
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>13,510</u>	<u>(5,750)</u>	<u>18,534</u>	<u>24,284</u>
FUND BALANCE - APRIL 1	171,344	171,344	171,344	
FUND BALANCE - MARCH 31	<u>\$ 184,854</u>	<u>\$ 165,594</u>	<u>\$ 189,878</u>	<u>\$ 24,284</u>

**VILLAGE OF FAIRGROVE
MAJOR STREET FUND
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND
BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2008**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 37,400	\$ 30,000	\$ 30,795	\$ 795
County reimb - Storm sewer project			10,000	10,000
Miscellaneous:				
Interest income	1,500	1,500	1,320	(180)
TOTAL REVENUE	<u>38,900</u>	<u>31,500</u>	<u>42,115</u>	<u>10,615</u>
EXPENDITURES:				
Routine maintenance	20,100	19,300	13,387	5,913
Traffic services	900	900	215	686
Winter maintenance	2,200	3,000	2,952	48
Administrative	1,700	1,700	1,671	29
TOTAL EXPENDITURES	<u>24,900</u>	<u>24,900</u>	<u>18,225</u>	<u>6,675</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>14,000</u>	<u>6,600</u>	<u>23,890</u>	<u>17,290</u>
OTHER FINANCING (USES):				
Operating transfer out	(15,000)	(15,000)	(15,397)	(397)
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>(1,000)</u>	<u>(8,400)</u>	<u>8,492</u>	<u>16,892</u>
FUND BALANCE - APRIL 1	<u>77,322</u>	<u>77,322</u>	<u>77,322</u>	
FUND BALANCE - MARCH 31	<u>\$ 76,322</u>	<u>\$ 68,922</u>	<u>\$ 85,815</u>	<u>\$ 16,892</u>

**VILLAGE OF FAIRGROVE, MICHIGAN
LOCAL STREET FUND
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND
BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2008**

	<u>BUDGET</u>			<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 12,500	\$ 12,500	\$ 12,817	\$ 317
County road improvement		7,400	7,884	484
Miscellaneous:				
Interest income	700	700	1,167	467
TOTAL REVENUE	<u>13,200</u>	<u>20,600</u>	<u>21,868</u>	<u>1,268</u>
EXPENDITURES:				
Routine maintenance	12,500	17,400	7,496	9,904
Traffic services	-	-	34	(34)
Winter maintenance	1,900	3,500	3,573	(73)
Administrative	1,700	1,700	1,671	29
TOTAL EXPENDITURES	<u>16,100</u>	<u>22,600</u>	<u>12,774</u>	<u>9,826</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(2,900)</u>	<u>(2,000)</u>	<u>9,095</u>	<u>11,095</u>
OTHER FINANCING SOURCES:				
Operating transfer in	15,000	15,000	21,758	6,758
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>12,100</u>	<u>13,000</u>	<u>30,853</u>	<u>17,853</u>
FUND BALANCE - APRIL 1	63,554	63,554	63,554	
FUND BALANCE - MARCH 31	<u>\$ 75,654</u>	<u>\$ 76,554</u>	<u>\$ 94,407</u>	<u>\$ 17,853</u>

**VILLAGE OF FAIRGROVE, MICHIGAN
LOCAL STREET IMPROVEMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND
BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2008**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE:				
Taxes:				
Bridge tax	\$ 3,500	\$ 3,500	\$ 3,921	\$ 421
Miscellaneous				
Interest income	500	500	589	89
TOTAL REVENUE	<u>4,000</u>	<u>4,000</u>	<u>4,511</u>	<u>511</u>
OTHER FINANCING USES:				
Operating transfer out		-	(6,361)	(6,361)
EXCESS OF REVENUE (UNDER)				
EXPENDITURES AND OTHER USES	<u>4,000</u>	<u>4,000</u>	<u>(1,850)</u>	<u>(5,850)</u>
FUND BALANCE - APRIL 1	35,629	35,629	35,629	
FUND BALANCE - MARCH 31	<u>\$ 39,629</u>	<u>\$ 39,629</u>	<u>\$ 33,779</u>	<u>\$ (5,850)</u>

ADDITIONAL INFORMATION

VILLAGE OF FAIRGROVE, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE:			
Taxes:			
Current property taxes	\$ 92,000	\$ 92,209	\$ 209
Trailer taxes	60	54	(6)
Penalties and interest	1,200	1,147	(53)
Total taxes	<u>93,260</u>	<u>93,409</u>	<u>149</u>
Intergovernmental:			
State revenue sharing	64,000	63,461	(539)
Liquor Licenses	800	612	(188)
Total intergovernmental	<u>64,800</u>	<u>64,073</u>	<u>(727)</u>
Miscellaneous:			
Fire protection & fire runs	41,400	50,261	8,861
Interest on investments	2,000	2,999	999
Special assessment-demolition	25,000		25,000
General department- Miscellaneous	2,600	4,171	1,571
Total miscellaneous	<u>71,000</u>	<u>57,431</u>	<u>(13,569)</u>
TOTAL REVENUE	<u>229,060</u>	<u>214,913</u>	<u>(14,147)</u>
EXPENDITURES:			
Administration:			
Salaries-Elected officials	14,200	12,162	2,038
Social security	300	271	29
Office supplies	1,800	1,881	119
Professional fees	4,800	4,555	245
Conference & workshop	400	90	310
Legal fees	2,700	2,460	240
Telephone	1,300	1,325	(25)
Publishing legal notices	900	650	250
Insurance and bonds	7,200	5,945	1,255
Memberships and dues	800	823	(23)
Miscellaneous	7,100	6,924	176
Tax statement preparation	350	316	34
Pension contributions	2,500	2,610	(110)
Total administration	<u>44,350</u>	<u>39,613</u>	<u>4,537</u>

VILLAGE OF FAIRGROVE, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES: (CONTINUED)			
Village buildings and grounds:			
Salaries	5,000	4,357	1,643
Employee benefits	1,800	1,951	(151)
Custodial supplies	200	200	0
Liability insurance	3,200	3,162	38
Electric-Buildings	4,200	3,981	219
Heat-Buildings	3,000	3,007	(7)
Repairs and maintenance	4,000	1,180	2,820
Contracted services	1,100	3,148	(2,048)
Miscellaneous expense	800	702	198
Total village buildings and grounds	<u>24,400</u>	<u>21,687</u>	<u>2,713</u>
 Police department:			
Labor	12,900	9,852	3,048
Employee benefits	990	754	236
Supplies and uniforms	2,300	1,910	390
Telephone	1,000	877	123
Auto expenses	2,380	1,063	1,297
Insurance and bonds	1,000	1,164	(164)
Miscellaneous	100	-	100
Capital outlay	5,600	5,572	28
Total police department	<u>26,900</u>	<u>21,190</u>	<u>5,710</u>
 Public works department:			
Labor	7,700	6,209	1,491
Employee benefits	2,300	2,781	(481)
Tools and supplies	1,000	1,184	(184)
Contracted services	24,500	15,592	8,908
Telephone	900	747	153
Street lighting	13,500	13,208	292
Park maintenance	2,000	591	1,409
Equipment rental	28,000	28,197	803
Insurance	600	631	(31)
Miscellaneous	400	-	400
Total public works department	<u>81,900</u>	<u>69,139</u>	<u>12,761</u>

VILLAGE OF FAIRGROVE, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES: (CONTINUED)			
Fire department:			
Wages	12,000	11,703	297
Employee benefits	900	895	5
Supplies and uniforms	5,360	4,498	862
Gas and oil	1,100	1,209	(109)
Insurance	6,700	6,604	96
Utilities	3,700	3,562	138
Repairs and maintenance	6,500	5,566	932
Dues and subscriptions	300	195	105
Conferences and education	2,400	2,817	(417)
Capital outlay	<u>18,300</u>	<u>7,478</u>	<u>10,822</u>
Total fire department	<u>57,260</u>	<u>44,550</u>	<u>12,710</u>
 TOTAL EXPENDITURES	 <u>234,810</u>	 <u>196,379</u>	 <u>38,431</u>
 EXCESS OF REVENUE OVER (UNDER)			
EXPENDITURES	<u>(5,750)</u>	<u>18,534</u>	<u>24,284</u>
 FUND BALANCE - APRIL 1	 <u>171,344</u>	 <u>171,344</u>	
 FUND BALANCE - MARCH 31	 <u><u>\$165,594</u></u>	 <u><u>\$189,878</u></u>	 <u><u>\$ 24,284</u></u>

VILLAGE OF FAIRGROVE, MICHIGAN

**MAJOR STREET FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2008**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
Routine maintenance:			
Labor		\$ 473	
Employee benefits		212	
Materials & supplies		61	
Contracted services		9,692	
Equipment rental		2,949	
Total routine maintenance	<u>\$ 19,300</u>	<u>13,387</u>	<u>\$ 5,913</u>
Traffic services:			
Labor		14	
Employee benefits		6	
Material and supplies		194	
Total traffic services	<u>900</u>	<u>215</u>	<u>686</u>
Winter maintenance:			
Labor		524	
Employee benefits		235	
Equipment rental		2,194	
Total winter maintenance	<u>3,000</u>	<u>2,952</u>	<u>48</u>
Administrative:			
Salaries		1,221	
Professional fees		450	
Total administrative	<u>1,700</u>	<u>1,671</u>	<u>29</u>
TOTAL EXPENDITURES	<u>\$ 24,900</u>	<u>\$ 18,226</u>	<u>\$ 6,674</u>

VILLAGE OF FAIRGROVE, MICHIGAN
LOCAL STREET FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2008

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
Routine maintenance:			
Labor		\$ 296	
Employee benefits		132	
Contracted services		6,361	
Equipment rental		708	
Total routine maintenance	<u>\$ 17,400</u>	<u>7,496</u>	<u>\$ 9,904</u>
Traffic services:			
Materials and supplies		34	
Total traffic services		<u>34</u>	<u>(34)</u>
Winter maintenance:			
Labor		677	
Employee benefits		281	
Equipment rental		2,615	
Total winter maintenance	<u>3,500</u>	<u>3,573</u>	<u>(73)</u>
Administrative:			
Salaries		1,221	
Professional fees		450	
Total administrative	<u>1,700</u>	<u>1,671</u>	<u>29</u>
TOTAL EXPENDITURES	<u>\$ 22,600</u>	<u>\$ 12,774</u>	<u>\$ 9,826</u>



WEINLANDER FITZHUGH

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August 26, 2008

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To the Honorable Village Council
Village of Fairgrove
Tuscola County, Michigan

In planning and performing our audit of the financial statements of the Village of Fairgrove as of and for the year ended March 31, 2008, in accordance with U.S. generally accepted auditing standards, we considered the Village of Fairgrove's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Fairgrove's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Fairgrove's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Village of Fairgrove's financial statements that is more than inconsequential will not be prevented or detected by the Village of Fairgrove's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Fairgrove's internal control. We believe that the following deficiencies constitute material weaknesses.

Segregation of Duties

One of the strongest controls in an internal control system is known as "segregation of duties". This means that there are different individuals performing different duties within a specific accounting function. Having multiple individuals performing duties in the same accounting area acts as a check and balance.

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Honorable Village Council
Village of Fairgrove
August 26, 2008
Page 2

As is common in many small organizations, there is often only a few people, sometimes only one person, performing the accounting and financial functions and it is also common to have these individuals concentrate their efforts in one area. While this is usually more efficient, it lends to a weakened internal control system. There are generally insufficient checks and balances in place.

This is the situation with the Village of Fairgrove. Due to a limited staff size, the Village of Fairgrove has a lack of segregation of duties with respect to the cash receipt accounting function because the duties are centralized with two individuals with respect to tax collections and one individual with respect to all other collections.

The above comments are not intended to reflect on the performance or capability of any employee.

This communication is intended solely for the information and use of management, and the Council Members and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

August 26, 2008

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To the Honorable Village Council
Village of Fairgrove
Fairgrove, Michigan

We have audited the financial statements of the Village of Fairgrove for the year ended March 31, 2008, and have issued our report thereon dated August 26, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 23, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on June 23, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Fairgrove are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2008 fiscal year. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

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WEINLANDER FITZHUGH

Village Council
Village of Fairgrove
August 26, 2008
Page 2

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the fixed asset depreciation is based on the estimated useful lives of the fixed assets. We evaluated the key factors and assumptions used to develop the useful lives of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the audit, there were no significant reclassification or audit adjustments required.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.



WEINLANDER FITZHUGH

Village Council
Village of Fairgrove
August 26, 2008
Page 3

Management Representation

We have requested certain representations from management that are included in the management representation letter dated August 26, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council, management and others within the Village and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh